

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-5-G

June 21, 2007

IN RE:)	
)	
Annual Review of Purchased)	
Gas Adjustment and Gas Purchasing)	
Policies of South Carolina Electric and)	SETTLEMENT AGREEMENT
Gas Company)	
)	
)	

This Settlement Agreement ("Settlement Agreement") is made by and between the South Carolina Office of Regulatory Staff ("ORS") and South Carolina Electric & Gas Company ("SCE&G" or "the Company") (collectively referred to as the "Parties" or sometimes individually as "Party");

WHEREAS, on May 3, 2007, the Public Service Commission of South Carolina (the "Commission") issued the notice of hearing for the 2007 Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies ("PGA") of SCE&G;

WHEREAS, the purpose of this proceeding is to review matters related to SCE&G's gas purchasing practices and polices, administration of its purchased gas adjustment, and the recovery of its gas costs;

WHEREAS, the period under review in this docket is September 1, 2006 to February 28, 2007 ("Review Period");

WHEREAS, the review period of SCE&G's PGA typically consists of a twelve-month time period; however, in this proceeding the Review Period was shortened, pursuant to

Commission Order No. 2006-679 and due to South Carolina Pipeline Corporation's transition to an interstate pipeline effective November 1, 2007;

WHEREAS, ORS has examined the books and records of SCE&G and conducted inquiries and analyses related to the Company's gas purchasing practices and policies, administration of its purchased gas adjustment, and the recovery of its gas costs;

WHEREAS, ORS determined that during the period under review, SCE&G: a) properly administered the purchased gas adjustment; b) employed prudent gas purchasing practices and policies; c) administered the Industrial Sales Program-Rider ("ISP-R") prudently and reasonably and in accordance with the terms of Order No. 2005-619, adopting the Settlement Agreement entered into in Docket No. 2005-113-G, which authorized that program in its current form; d) recovered its gas costs consistent with all applicable tariffs and Commission orders; (e) conducted and administered its hedging program consistent with the authorization granted in Order No. 2006-679 and, f) was prepared during the review period and is currently prepared to meet its firm customers' projected needs via its future supply and capacity asset plans;

WHEREFORE, the Parties have engaged in discussions and in the spirit of compromise, the Parties hereby stipulate and agree to the following terms and conditions:

1) The Parties agree to stipulate into the record before the Commission this Settlement Agreement. The Parties further agree to stipulate into the record the pre-filed direct testimony of Martin K. Phalen, Rose Jackson, Harry L. Scruggs, Roy H. Barnette, and Carey S. Flynt without cross-examination and that each witness will take the stand to present his or her testimony.

2) For the purpose of setting the gas cost recovery factors, the Parties accept the use of ORS's cost of gas calculations for the period September 1, 2006 through February 28, 2007 as set forth in ORS Audit Exhibit RHB-1 attached to the testimony of Roy H. Barnette.

3) The Parties agree to maintain the monthly adjustment procedure and notification procedure for the total cost of gas factors as adopted in Commission Docket No. 2006-5-G, Order No. 2006-679.

4) The Parties acknowledge the demand charges included in the total cost of gas factors will continue to be calculated as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679 by distributing such costs among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales. SCE&G agrees to use the 50-50 allocation of peak design day demand and annual forecast sales for demand charges in any recalculation of total cost of gas factors under this Settlement Agreement. The Parties agree that the allocation factors contained on page 4 in Mr. Scruggs's pre-filed direct testimony (Residential 66.68%; SGS/MGS 30.58%, LGS 2.74%) are appropriate and should be used for cost of gas calculations made on or after August 1, 2007.

5) The Parties agree that the revised "Purchased Gas Adjustment, Firm Gas Only," tariff sheets attached to Mr. Harry L. Scruggs's testimony as Exhibit __ (HLS-1) are proper in that:

a) They cause the demand costs to be based on actual demand costs and sales volumes; and

b) They eliminate Transportation Service only volumes from the calculation of future monthly demand charges so that the demand cost of gas charges are recovered on a more appropriate cost causation methodology.

The Parties agree that the revised tariff provisions contained in Exhibit __ (HLS-1) should be made effective August 1, 2007. As part of the recalculation of PGA factors for the month following the effective date of the Commission's Order in this proceeding, SCE&G agrees to recalculate the Demand Charge cost of gas factors using the method set forth in those revised tariff sheets and consistent with Paragraph 4 above.

6) The Parties agree that the “Rate 35 Transportation and Standby Sales Service” tariff sheet attached to Mr. Harry L. Scruggs’s testimony as Exhibit __ (HLS-2) is proper in that it requires an annual contractual election of a) Transportation Service only, b) Transportation Service with Standby Service or, c) Standby Service only. As part of the recalculation of PGA factors for the month following the annual contractual elections by customers selecting Rate 35, SCE&G agrees to recalculate the Demand Charges cost of gas factors consistent with those elections and using the method set forth in paragraph 4 above.

7) The Parties agree that SCE&G may recover through the PGA the un-recovered demand costs accumulated under the PGA tariff sheet approved in Commission Docket No. 2005-113-G and Order No. 2005-619. The amount of those costs is \$1.189 million as of February 28, 2007, plus additional amounts arising between that date and the effective date of the Order in this proceeding.

8) As part of this Settlement Agreement, the Parties agree that SCE&G shall continue to charge and recover carrying costs on the cumulative total over- or under-collection balances in the same method and with the same limitations as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679.

9) The Parties agree that the hedging program and methodologies approved by Commission Order No. 2006-679 in Docket No. 2006-5-G were conducted and administered during the Review Period consistent with Order No. 2006-679 and that SCE&G’s approved hedging program is to continue through the next review period. As of the close of this review period (February 28, 2007), the hedging program approved in PSC Docket No. 2006-5-G and Order No. 2006-679 has been in effect for only four months. The Parties agree that more information will be available at the close of the next review period from which to further evaluate the program.

SCE&G agrees to continue reporting to the Commission and ORS within 30 days following the close of each month the results of the hedging program for the preceding month, which report shall include the hedging transactions closed-out during the month, the additions to or subtractions from the cost of gas resulting from closed-out contracts, the costs of operating the program during the month, and a list of open transactions as of the last day of the month for each succeeding month.

The Parties further agree that SCE&G's hedging program shall continue to be operated independent of and shall be accounted for separate from its purchase of physical gas supply.

10) ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (added by Act 175). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

... 'public interest' means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes this Settlement Agreement reached among the Parties serves the public interest as defined above.

11) The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of all issues in the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission. The Parties agree to use reasonable efforts to defend and support any

Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

12) The Parties agree that signing this Settlement Agreement will not constrain, inhibit, impair, or prejudice their arguments or positions held in other collateral proceedings, nor will it constitute a precedent or evidence of acceptable practice in future proceedings. If the Commission declines to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

13) This Settlement Agreement shall be interpreted according to South Carolina law.

14) The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

WE AGREE:

Representing the South Carolina Office of Regulatory Staff

Shannon Bowyer Hudson

Shannon Bowyer Hudson, Esquire

Jeffrey M. Nelson, Esquire

Office of Regulatory Staff

Post Office Box 11263

1441 Main Street (Suite 300)

Columbia, SC 29211

Phone: (803) 737-0889/737-0832

Fax: (803) 737-0895

Email: shudson@regstaff.sc.gov
jnelson@regstaff.sc.gov

WE AGREE:

Representing South Carolina Electric & Gas Company



Catherine D. Taylor, Esquire

K. Chad Burgess, Esquire

South Carolina Electric & Gas Company

1426 Main Street, Mail Code 130

Columbia, South Carolina 29201

Phone: (803) 217-8141

Fax: (803) 217-7931

Email: cdtaylor@scana.com

chad.burgess@scana.com

Belton T. Zeigler, Esquire

John P. Boyd, Esquire

Haynsworth Sinkler Boyd, P.A.

Post Office Box 11889

1201 Main Street, 22nd Floor

Columbia, South Carolina 29211-1889

Phone: (803) 779-3080

Fax: (803) 765-1243

Email: beltonzeigler@hsblawfirm.com

jboyd@hsblawfirm.com

Mitchell Willoughby, Esquire

Willoughby & Hoefer, P.A.

Post Office Box 8416

1022 Calhoun Street, Suite 302

Columbia, SC 29202-8416

Phone: (803) 252-3300

Fax: (803) 256-8062

Email: mwilloughby@willoughbyhoefer.com